



Nifty Fifty

This week's raft of key central bank meetings will not provide much in the way of festive cheer. The ECB, US Federal Reserve and the Bank of England are all expected to accompany another round of rate hikes with a downbeat assessment of the economic outlook for 2023. However, they may well slow the pace of rate hikes.

All three central banks have enacted aggressive policy tightening this year, against the backdrop of surging inflation, to around 10% or above in some cases. However, with tentative signs that inflationary pressures may be easing, as well as a recent sharp fall in commodity prices, and given central banks are cognisant of the risks to their respective economies from over-tightening, the pace of rate hikes may slow from here on. This prospect has helped to improve risk appetite on financial markets recently, with both stocks and bonds making good gains.

Since the US Fed started to raise rates in March, it has hiked by 375bps, including four consecutive 75bps increases. However, at its last meeting in early November the Fed statement signalled that it was considering slowing the pace of rate hikes. Futures contracts suggest this may occur on Wednesday, with a 50bp rate hike priced in.

Aside from the policy announcement, attention will be centred on the Fed's updated interest rate projections, which may well show US rates rising above 5% next year, and remaining at elevated levels for an extended period of time. In contrast, the market currently envisages that rates will peak at 5%, with rate cuts expected by the end of next year.

Meanwhile, the BoE started its rate tightening cycle last December and has hiked for eight consecutive meetings, with the Bank Rate currently at 3%. This included a 75bps hike in November. However, Governor Bailey was quite clear in stating that the BoE believes that the official interest rate will go up by less than priced in by markets.

There has been a clear softening trend in rate hike expectations, with markets envisaging a peak at around 4.6%. In terms of this Thursday's outcome, recent comments from some BoE members suggest the committee is split on whether to maintain or slow the pace of rate hikes. The market is pencilling in a 50bps increase.

The ECB was much slower out of the blocks to tighten policy. It implemented its first rate increase in July. To date, the ECB has hiked rates by 200bps, including 75bps hikes at its last two meetings. However, the October meeting statement noted that it has "made significant progress in



withdrawing monetary policy accommodation”, opening the door to smaller rate hikes, than the 75bps clips. Meantime, inflation fell for the first time in seventeen months in November, adding to speculation that the ECB may opt for a more modest 50bps hike this week.

However, comments from ECB officials suggest there are differing views on the Governing Council in relation to slowing the pace of rate hikes. The market is anticipating a 50bps hike on Thursday. This would see the deposit rate end 2022 at 2%. Looking ahead, market expectations are for the deposit rate to peak at circa 2.75-3.00% in mid-2023.

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